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C O N F I D E N T I A L SECTION 01 OF 02 KYIV 002671

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TAGS: [EPET](#) [ETRD](#) [PREL](#) [RS](#) [UP](#)
SUBJECT: UKRAINE:TALK OF REMOVING RUE FROM GAS DEAL
INCREASES

REF: A. KYIV 2611
[1](#)B. MOSCOW 5069

Classified By: Ambassador, Reasons: 1.4 B) AND D)

[1](#)1. (C) Summary: Local reaction to Gazprom Chairman Medvedev's comments (ref b) about removing RosUkrEnergo (RUE) from the gas deal have ranged from positive to muted. Minister of Fuels and Energy Boyko told Ambassador he had heard nothing from the Russians about possibly removing RUE from the gas deal. Both Boyko and First Deputy Prime Minister Azarov made the traditional argument of RUE proponents that removing RUE from the deal would lead to much higher prices from Gazprom. Tymoshenko and her advisers were more positive, strongly supporting the idea of a direct gas relationship. Oleksandr Shlapak of the Presidential Administration was also positive but a bit more cautious, saying direct relations with Gazprom might have to wait until [1](#)2009. End Summary.

BOYKO - NO ONE TALKED TO ME ABOUT IT

[1](#)2. (C) Medvedev's October 15 comments were widely carried here, but even earlier there had been speculation, based on Yulia Tymoshenko's campaign promises to extract RUE for the gas deal, that direct gas relations might be possible. In an October 11 meeting (ref a), Boyko disavowed the idea that direct gas relations might be possible. He stated no one in Moscow had raised this possibility with him so far. In Boyko's view, the only way Gazprom would agree to direct gas relations is if Ukraine paid the full price of \$230/thousand cubic meters (tcm). He expected in any case that Gazprom would wait until a new government was formed in Kyiv to address the issue of 2008 gas prices; he expected them to fight with others on gas prices first, like Belarus and Lithuania.

AZAROV ONLY CARES ABOUT PRICE

[1](#)3. (C) Azarov's initial public reaction to Medvedev's comments was contradictory. In one comment he said direct gas relations were worth studying, but speaking to another reporter he said that canceling the existing gas relationship would take Ukraine back to the debacle of early 2006. Meeting with the Ambassador October 18, Azarov professed to care only about the price Ukraine paid for gas and did not care whether a middleman was involved or not. He argued direct gas relations would mean paying the full price of \$230/tcm. However, he noted that both Russia and Ukraine realized middlemen had a cost, and would seek to reduce intermediaries' role.

TYMOSHENKO PRAISES THE RUSSIANS

¶4. (U) Tymoshenko, who has long publicly called for ejecting RUE, was very positive. She told the press in reaction to Medvedev's statements, "It is very good that Russia has supported our concept of the relationship." She promised there would be "well-balanced and moderate" gas pricing after formation of a new government and termination of RUE's role. Oleksandr Gudyma, her adviser on energy policy issues, commented that the statements meant Gazprom was caring for its international image, which had been damaged by such non-transparent schemes. He expected that abolishing such intermediaries would give Gazprom access to greater profits.

PRESIDENT'S MAN CAUTIOUS

¶5. (U) First Deputy Chief of the Presidential Administration Oleksandr Shlapak told a press briefing October 10 that he hoped Russia and Ukraine could eliminate gas intermediaries by 2009. He noted that although the Ukrainian side might raise the issue in negotiations for the 2008 prices and deliveries, he was unsure if direct relations would be possible by then.

¶6. (C) Comment: Many here were pleasantly surprised to hear a senior Gazprom official like Medvedev broach the idea of removing intermediaries from the deal. However, some feel this may be a ploy, since there is no concrete sign Gazprom is ready to offer prices to Ukraine below \$230/tcm without RUE. We also doubt that Ukrainians have suddenly seen the light that intermediaries reduce transparency and increase costs. More likely, it is just that as the gas price creeps closer to European levels, the justification for an intermediary correspondingly diminishes. End comment.

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